

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 94-009-G - ORDER NO. 94-1126
OCTOBER 28, 1994

IN RE: Annual Review of Purchased Gas Recovery)
 Procedures and Gas Purchasing Policies) ORDER
 of United Cities Gas Company.)

On October 16, 1991, the Public Service Commission of South Carolina (the Commission) issued its Order No. 91-927 which requires an annual review of the Purchased Gas Adjustment and Gas Purchasing Policies of United Cities Gas Company (United Cities or the Company). Commission Order No. 91-927 also requires the Commission Staff to make an annual audit of the Purchased Gas Adjustment and Purchasing Policies of United Cities, to report to the Commission the results of Staff's audit, and to make the results available to the Company and the Consumer Advocate for the State of South Carolina (the Consumer Advocate) upon completion. By Commission Order No. 94-1050 dated October 6, 1994, the Commission reconsidered the procedure set forth in Order No. 91-927 and ordered that the annual hearings for gas utilities to review their purchased gas adjustment and purchasing policies should follow the same procedure as all other proceedings. This matter comes before the Commission for the annual audit of the Company's Purchased Gas Adjustment and Gas Purchasing Policies.

By letter dated July 18, 1994, the Commission's Executive Director instructed United Cities to publish, one time, a prepared

Notice of Filing in newspapers of general circulation in the affected areas. The Executive Director also instructed United Cities to furnish, by U. S. Mail, the prepared Notice of Filing to each customer. The purpose of the Notice of Filing was to indicate the nature of the proceeding before the Commission and to advise all interested persons of the manner and time in which to file appropriate pleadings for participation in these proceedings. United Cities complied with the instructions of the Executive Director and as proof of compliance supplied an Affidavit of Publication and an Affidavit of Service to the Commission.

A public hearing relative to the the Company's Purchased Gas Adjustment and Gas Purchasing Policies was commenced on October 13, 1994, in the Commission's Hearing Room. The Honorable Rudolph Mitchell presided. Jerry W. Amos, Esquire, and Zoe Sanders Nettles, Esquire, represented United Cities; Hana Pokorna-Williamson, Esquire, represented the Consumer Advocate; and Florence P. Belser, Staff Counsel represented the Commission Staff.

United Cities presented the testimony and exhibits of Bobby J. Cline, Senior Analyst/Regulatory Affairs for United Cities. The Consumer Advocate did not present a witness. The Commission Staff presented Norbert M. Thomas, Public Utilities Accountant, and Brent L. Sires, Utilities Rate Analyst, to report Staff's findings.

II.

FINDINGS OF FACT

Based upon the testimony and exhibits received into evidence at the hearing and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. United Cities is a natural gas utility providing natural gas service in its service area within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. United Cities presently approved PGA Rider mechanism was approved by Commission Order No. 89-871 dated September 5, 1989. United Cities is operating its PGA Rider in compliance with Commission Order No. 89-871.

3. United Cities' balancing adjustment resulted in an under-recovery of \$687,132 in gas costs for the twelve months ended June 30, 1994.

4. The appropriate Balancing Adjustment for United Cities is \$.0089 per therm effective, with the first billing cycle in November 1994.

5. United Cities should be allowed to amend its Balancing Adjustment Formula to exclude the previously approved annual balancing adjustment from the calculation of the current balancing adjustment.

6. United Cities should be allowed to reassign gas supply demand costs between firm and interruptible customers.

7. United Cities' gas purchasing policies for the year under review were prudent and reasonable.

III.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1.

The evidence supporting this finding concerning the Company's

business and legal status is contained in prior Commission Orders in the docket files of the Commission of which the Commission takes judicial notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 2, 3 AND 4.

The evidence supporting these findings is contained in the testimony of Company Witness Cline and Staff Witnesses Thomas and Sires. In Order No. 89-871 dated September 5, 1989, the Commission approved the PGA Rider presently used by United Cities. Staff Witness Sires testified that his examination of the Company's PGA filings indicated that United Cities is operating the PGA Rider in compliance with Order No. 89-871.

According to the testimony of Staff Witness Thomas, the Accounting Department reviewed the calculations included in the annual PGA true-up and traced amounts included in the calculations to the books and records of the Company. A net Balancing Adjustment of \$199,695 was computed for the twelve months ended June 30, 1994, and the net Balancing Adjustment of \$0.0089 per therm reflects an under-recovery for the twelve months ended June 30, 1994. The activity included in the true-up computation for the period July 1993 through June 1994 included the following:

- 1) Invoice Gas Costs representing the monthly demand and commodity costs associated with gas purchases. For the twelve months under review, Demand Costs were \$2,227,611 and Commodity Costs were \$4,449,906. From these amounts, Storage injections of (\$625,093) were deducted and Storage Withdrawals

of \$738,511 were added for a total gas cost for the period of \$6,790,934.

2) Costs recovered from direct customers were based on actual therm sales by month to the Direct Industrial class times the actual billed cost. The total costs recovered from direct customers were computed to be \$2,560,414 for the twelve months ended June 30, 1994.

3) Costs recovered through PGA rates included the fixed cost component (demand and storage demand) for the direct industrial class of customers times actual therm sales. Also included is the most current PGA factor (demand and commodity) times the actual therm sales for residential and commercial customers. For the twelve months ended June 30, 1994, direct sales cost recoveries were \$1,856,963. Residential and Commercial cost recoveries, including commodity costs, were \$2,687,939 for total costs recovered through the PGA of \$4,544,902

4) Supplier refunds were received by the Company during the period under review in the amount of \$190,100. Computed interest on supplier refunds at 8.75% was \$10,598 for total Supplier Refunds with Interest of \$200,698. The Company requested, and Staff concurred, that this amount should be returned to the ratepayers by reducing the over/under collection for the period under review.

5) The projected recoveries from July 1994 through October 1994, based on the balancing adjustment per therm of \$.0429, are \$286,739.

Staff Witness Thomas testified that the balance at June 30, 1994, of \$199,695 accurately stated and fairly represented the under-collection by the Company for the twelve months ended June 30, 1994, and that the increment of \$.0089 should recover the under-collection from ratepayers during the twelve month period following its implementation.

Based on the evidence presented, the Commission concludes that the appropriate Balancing Adjustment for United Cities is \$.0089 per therm and that this Balancing Adjustment will recover the under-collection during the next twelve months.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5.

According to Company Witness Cline, United Cities is proposing to change the Balancing Adjustment Formula set forth in Section V-B of its tariff. United Cities proposes to exclude the previously approved annual Balancing Adjustment from the current calculation of the current Balancing Adjustment. The Balancing Adjustment Factor becomes effective to customers in November of each year and remains in effect for twelve months through October 31 of the next year. According to Mr. Cline, there will always be an over- or under-recovery, or a residual, of the Balancing Adjustment after being applied to customers bills for twelve months. Therefore, Mr. Cline states that United Cities proposes to add only the residual to the calculation of the current Balancing Adjustment. The current formula requires that the previously approved annual Balancing Adjustment be included in the current Balancing Adjustment calculation for twelve months ending June 30, as either an increase or decrease, as appropriate, to cost incurred. The

previously approved Balancing Adjustment is offset by revenues generated by the Balancing Adjustment Factor for the period November 1 through June 30, thereby "truing-up" the previously approved Balancing Adjustment before the Balancing Adjustment Factor has expired. According to Mr. Cline, the effect of having the Balancing Adjustment factor included for the remaining four months of the period and of including the true-up of the previously approved Balancing Adjustment in the new Balancing Adjustment Factor to become effective in November results in the Company either refunding or recovering the same amount twice.

Staff Witness Sires also recommended that formula for the Balancing Adjustment Factor be changed. According to Mr. Sires, the formula for the Balancing Adjustment Factor should be adjusted since it is expected that the projected recoveries from July through October will be recovered before the new Balancing Adjustment Factor becomes effective.

The Commission agrees that the formula for the current Balancing Adjustment should be changed. The Commission finds the Company's proposed change reasonable and that the proposed change will preclude United Cities from either refunding or recovering the same amount twice.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6.

United Cities proposes to change the manner in which it recovers certain demand costs from firm and interruptible customers. Company Witness Cline testified that United Cities currently recovers demand costs from its customers equally. Mr. Cline testified that United Cities proposes to recover the fixed

costs of firm capacity contracts purchased under Transcontinental Gas Pipe Line Corporation's (Transco's) Rate Schedules FT, FS, and SE in a more proportional sharing between firm and optional (interruptible) customers based upon level of secured service.

According to Mr. Cline, United Cities moves almost all of its gas supply into its service area through its FT, FS, and SE firm capacity contracts. While these contracts were entered into to provide service to firm customers, the interruptible customers do get some use of these contracts. As United Cities does not need the full extent of these contracts in the summer months, the interruptible customers are using the firm capacity to receive their supply. The interruptible customers also get some use of firm capacity during the winter months, but that use is not secure and may be interrupted at any time that increased usage is required. Mr. Cline states that United Cities's South Carolina interruptible customers assume a disproportionate share of demand costs. Mr. Cline further states that United Cities believes that it would be equitable for the interruptible customers to pay some portion of the FT, FS, and SE demand costs for the summer months when use by the interruptible customers is secured. Mr. Cline testified that United Cities is having trouble remaining competitive and further that it is not fair that customers should pay for firm service when not actually receiving service all the time. United Cities proposes the assignment of 30% of 7/12 of FT, FS, and SE demand costs to optional customers. According to Mr. Cline, the 30% is derived by use of the Company's "Supply vs. Requirements Manual" which estimates that the interruptible

customers usage will be approximately 28.8%, which has been rounded to 30% for ease in calculation. The 7/12 represents the seven (7) summer months of the year.

Staff Witness Sires testified that under the current PGA, all customers pay approximately \$.40/Dth for FT, FS, and SE demand. Mr. Sires testified that under the proposed method, firm customers would pay approximately \$.59/Dth and interruptible customers would pay approximately \$.15/Dth.

The Commission finds and concludes that the Company's proposal of allocating demand costs is fair and reasonable. The Commission believes that it is equitable for interruptible customers to pay some portion of the FT, FS, and SE demand costs for the period when use of these services by the interruptible customers is secured during the seven summer months. The Commission believes that the formula proposed by United Cities will fairly allocate the demand costs between firm and interruptible customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7.

The evidence supporting the Commission's finding that United Cities' gas purchasing policies were prudent is found in the testimony of Staff Witness Sires. According to Mr. Sires, the changes still occurring in the natural gas industry require that United Cities continue to have the flexibility that is currently inherent in its approved PGA Rider.

Mr. Sires further testified that United Cities has demonstrated prudent actions in maintaining adequate supplies at just and reasonable costs. Mr. Sires points to several areas in support of this conclusion. First, Mr. Sires stated that United

Cities has maintained all of its industrial load and recovered the approved margins from its industrial customers. Additionally, United Cities was able to bill to its customers gas costs based on total costs divided by total sales. Second, Mr. Sires states that United Cities experienced an all time firm peak day demand on January 27, 1994 of 9,655 Dts which exceeded the firm demand entitlements under contract with suppliers by 650 Dts. According to Mr. Sires, United Cities was able to meet the peak demand through its firm and interruptible contracts and peaking capabilities through Transco. Mr. Sires states that United Cities is negotiating for a new guaranteed firm service which will meet this shortfall of 650 Dts. Company Witness Cline confirmed that United Cities is negotiating for a new service which should be in place by the 1994 winter period.

The Gas Department has reviewed the contracts United Cities has with suppliers for both long term and spot market supplies, and the Gas Department is of the opinion that the contract provisions are reasonable and represent prudent judgments. The Gas Department also concluded, among other things, that the Company's PGA and Direct Sales Program are being operated in compliance with Commission Orders.

Based on the evidence presented at the hearing, the Commission concludes that United Cities's gas purchasing practices and policies are hereby found to be prudent.

IT IS THEREFORE ORDERED THAT:

1. A Balancing Adjustment of \$.0089 is approved for United Cities for the next review period and shall be effective with the

first billing cycle in November 1994.

2. United Cities's proposed amendment to its Balancing Adjustment computation is approved.


3. The proposed method of allocation of demand charges between firm and interruptible customers is approved.

4. The Company's gas purchasing policies and practices are hereby found to be prudent.

5. The Company shall file revised Tariff and Rate Schedules reflecting the changes herein ordered within 10 days of receipt of this Order.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


CHAIRMAN

ATTEST:


Executive Director

(SEAL)